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SUBJECT: NAJAF AIRPORT TERMINAL EXPANSION; DISSATISFACTION WITH
INVESTMENT PARTNER AL AQEEQ

REF: 08 BAGHDAD 2299

¶1. This is a PRT Najaf reporting cable.

¶2. (SBU) Summary: Najaf airport opened its passenger terminal expansion on September 8, 2009. The provincial government is very dissatisfied with performance of investment partner Al Aqeeq (AA), which has only spent US\$7 million of the US\$50 million the provincial government expected AA to spend during the past year. Najaf is sending a delegation to Kuwait to insist that AA live up to its promises. If not the delegation may seek to terminate its relationship with AA. AA is also seven million USD behind in its payments to airport security contractor Sabre. The province has told both Sabre and the PRT that it wants Sabre to be part of Najaf Airport's future, whether Al Aqeeq goes or stays, and would be willing to pay Sabre going forward. Najaf Airport remains the provincial government's top priority project in Najaf, and the Governor is serious when he says he wants to attract a direct flight between the United States and Najaf. End summary.

Terminal Expansion Opening

¶3. (SBU) On September 8, the Najaf Airport opened its gleaming passenger terminal expansion, doubling the space of its current temporary passenger terminal. Governor Adnan Zurfi (a dual Iraqi-American citizen) and PC Chair Sheikh Fayed al Shimmeri officiated at an Iftar for about five hundred, including considerable media coverage. PRT members were honored guests in the front row at the remarks and during the Iftar. Team Leader found himself sitting between the Governor and the son of Imam Qubanchi (Note: Although more moderate recently, Imam Qubanchi has been a regular critic of the U.S. in Friday sermons in Najaf. The PRT reports on the Imam's sermons each week in its SitRep. End note.) The provincial government, and not airport investor Al Aqeeq, funded the terminal expansion project through a mix of local funds, and a special allocation from Baghdad as a result of special appeals to the PM and Ministry of Finance.

Al Aqeeq Has Not Met Contract Obligations

¶4. (SBU) According to the provincial leaders (including the Governor and the PC Chair), Al Aqeeq has failed to meet its obligations as the airport operator over the last year. It was apparently supposed to spend 50 million USD during the last year, but is estimated to have spent only about seven million USD. It has only paid airport security contractor Sabre one million USD of the eight million USD that it owes Sabre. Al Aqeeq is about eight months behind in installing ILS (instrument landing system) equipment which will allow precision instrument approaches in weather conditions as adverse as one half mile visibility.

¶5. (SBU) As a result, the airport operates only in the daytime under Visual Flight Rules. The Airport has installed a Very High Frequency Omnidirectional Range navigation system (VOR) and submitted a VOR approach to the Iraq Civil Aviation Authority (ICAA). Based on the history of stalled development at the Airport (of which the ILS is a prime example), the ICAA has not approved the VOR approach. OTA reports that the ICAA views the VOR as an interim step for Instrumental Flight Rules (IFR) services and will not approve the approach until there is progress on the ILS.

Crunch Time

¶6. (SBU) Governor Zurfi told TL and Transportation Advisor Bentson that the province was presenting Al Aqeeq with an ultimatum to either perform in accord with the contract or withdraw. He maintained that Al Aqeeq's initial response was positive. Acting on that positive sign, the Governor reports that he will dispatch a delegation to Kuwait to carry out further negotiations imminently. The Governor's representative at the airport Sadiq Laban asked Transportation Advisor to provide a non-paper with the key points that should be part of any new contract. Transportation Advisor commented that AA, which is really an investment company, should hire a professional airport management company and agreed to provide the non-paper. Laban was clear that going forward the airport must be ICAO compliant, and that security for the airport must be world class.

Sabre Owed Money by AA

¶7. (SBU) Sabre has told PRT that Al Aqeeq owes Sabre seven million USD since January. Sabre has tired of AA's stalling tactics and has already told AA that it cannot afford to continue operations unless it is paid. Sabre's predecessor, as security contractor, Global, also quit last January over payment issues. The Governor told Sabre that the province would like Sabre to remain the security contractor at the airport even if AA goes. The province has told Sabre and us that it would be ready to step in and pay Sabre going forward. However, in one conversation, Laban mentioned that Sabre would have to go after AA to receive unpaid fees from its contract with AA. It is unclear whether Sabre could/would be willing to continue operations if it is not compensated for its work over the past six months. Sabre currently employs more than two hundred at the airport and would already be augmenting its staff and training for the future if it had received its fees. The province says making sure that Sabre is paid promptly will be an early test of AA's sincerity.

Relatively Modest USG/PRT Contributions to Najaf Airport have Leveraged Progress

¶8. (SBU) Cooperation between the USG, Najaf Province, and the GOI has been highly successful in moving this key project forward. USG contributions have been important, on the technical and management coordination side, but relatively modest in financial terms. Since 2007, the USG facilitated a number of important activities at the Airport. On a pro bono basis, Boeing visited to survey the former military airport and runway on the present airport site to determine the suitability for various classes of passenger aircraft. The USG hired Stanley Engineering with US\$2.5 million in ESF funding to prepare the Airport's master plan. ESF/PRDC funding built the airport heliport for US\$918,000 and a further US\$300,000 provided for necessary work on the apron. The FAA conducted an ICAO-based airport inspection in December of 2008. OTA is considering providing US\$1.5 million in security equipment to the airport and will travel to Najaf to check on the progress addressing the deficiencies identified in the FAA inspection.

¶9. (SBU) The most important contribution has been through constant technical advice (on a daily basis through PRT transportation advisor Kirk Bentson and frequent contributions from OTA) ensuring understanding of what needed to be done to achieve ICAO compliance and international standards. The PRT has played a vital role, working with OTA, to bring about coordination between Najaf authorities and the ICAA/Ministry of Transportation to ensure that air traffic controllers, customs and immigration personnel arrived in a timely manner for each phase of airport operations. Almost all Najafis, including the marja'iyah, are well aware, and highly appreciative of USG support of the Najaf Airport project (reftel). This in turn has provided the USG with very positive IO; the PRT attributes increased acceptance by Najafis to the PRT's contributions in this area.

Getting the Flights to Fly

¶10. (SBU) Neither the provincial government nor AA has been

successful in motivating the ICAA to negotiate bilateral agreements to bring flights to the Airport. Al Aqeeq's lack of experience has contributed to a myopic focus on getting the airport open. Their naivety led them to believe that "if they built it, they would come" and flights from all destinations would be permitted to land. AA did not devote enough attention to the marketing and bilateral agreements necessary to permit and stimulate international arrivals at the new airport.

¶11. (SBU) The ICAA is responsible for negotiating bilateral agreements for Iraq, and its overriding concern is to protect Iraqi Airways. That protectionism will be to the detriment of Najaf Airport. Mahan Airlines discontinued their flights from Iran to Najaf as a result of an impasse over compensation from Mahan to Iraqi Airways for an imbalance in the number of flights flown by each airline. As a result, relations between Mahan and ICAA are currently very poor, which does not bode well for future flights from Iran to Najaf. The province has lost, and stands to lose, significant tourism revenue but does not appear to be working with the ICAA, the MOT, or the legislature to change the policies that are damaging their interests.

¶12. (SBU) The province previously had a healthy relationship with the ICAA. Since the change in leadership both in the provincial government and in the ICAA early this year, their interaction appears to have ground to a halt. AA's involvement and failure to deliver on promises had always made the relationship a challenging one, but that on-going communication was more productive than the current silence between the parties.

¶13. (SBU) This project is at the top of Najaf's agenda, a key step in building its vision of the future as a modern center of learning, tolerance, culture, and exchange while maintaining its tradition as the revered center of Shi'ism. This vision for the future is exemplified by the last session of the Organization of the Islamic Conference accepting Najaf as a "capital of Islamic culture in 2012."

¶14. COMMENT: The problems with Al Aqeeq are not new. The company is not an experienced airport developer. OTA and the PRT have advised the province of AA's deficiencies, but the province has been reticent to cancel the agreement with AA even in the face of recurring non-performance. Najaf Airport will not reach its potential unless AA meets its contract obligations, relinquishes its management role, and hires a competent airport management company. Even with those challenges, there is no doubt that the provincial government will devote significant attention to working to get the

airport right. Sheikh Fayed and the provincial council have met to discuss and authorize the negotiations with Al Aqeeq. It is difficult to tell whether AA's reluctance to put more money into the project over the last year reflects financial worries or possible political worries. AA initially contracted with the prior ISCI-dominated provincial administration. The airport was only a small part of AA's planned investment in the province. Their plans also included a large residential real estate project out by Bahar Najaf, but that development has stalled as well.

¶15. The Najafi vision for the future is re-enforced by an uptick in interest in English studies, the Governor's strong support for Najaf's first sister city relationship with Minneapolis, calls from Najaf elites for a U.S. consulate to be established, and the Governor's interest direct flights between the U.S. and Najaf (however unlikely that may be), and to Europe.